

House Business & Industry Interim Hearing Testimony

April 27, 2022

Charge 5: Review operational changes and strategies employed by the Texas Workforce Commission to improve outcomes related to Unemployment Benefit Services, including application and payment processes, customer services, and fraud deterrence.

Thank you, Chairman Turner, Vice Chair Hefner, and members of the committee. For the record, I am Ed Serna, Executive Director of the Texas Workforce Commission. I want to provide an overview of TWC's Unemployment Insurance program, speak to the agency's experience during the pandemic and our agency's response, describe our payment processes and customer services, update you on our UI modernization project, and tell you about our efforts to deter UI fraud.

Unemployment Insurance Overview

Unemployment Insurance, or UI, provides a partial income replacement to individuals who have lost their job through no fault of their own. Individuals must meet eligibility requirements and be able to work, available for work, and actively searching for full-time work to receive benefits. The UI Trust Fund, which pays out the benefits to eligible claimants, is funded by employer taxes.

We first started to see a slight increase in UI claims filed the week ending March 14, 2020, when 16,176 claims were filed. The very next week (Week ending March 21, 2020) claims for UI benefits jumped to 155,426 claims filed that week. The week after that, ending on March 28, 2020, 276,185 claims were filed and the next week, the week ending April 4, 2020, TWC saw the pandemic peak of 315,167 claims filed. After we hit that peak week, claims for benefits remained high but began to drop from the peak. As the pandemic continued, we did see ebbs and flows of initial claims corresponding with the progression of the pandemic and reauthorization of federal UI benefit programs.

Moving to the present, initial claims have returned to pre-pandemic levels and for the week of April 16, 2022, we saw 14,549 claims filed. Based on voluntary, self-reported information we received from claimants who filed during the 1st quarter of 2022, the following industries had the most claims filed: Construction; Office and Administrative Support; Healthcare and Social Assistance; and Professional, Scientific, and Technical Services. The specific occupations seeing the most claims filed were Construction and Extraction, Office and Administrative Support, Sales, and Management. I do want to note that just having more filed claims in an industry does not necessarily correlate to a decline or layoffs in that industry sector, as individuals file for UI for many reasons. The top job separation reasons reported by employers in response to UI claims were permanent layoff, performance issues, violation of company policy, quitting, and absences.

The surge in unemployment claims during the pandemic put significant strain on the UI benefits system. At the beginning of last session, I shared with this committee many of the numbers and

statistics on our pandemic intake of UI claims and calls. I want to revisit those for a moment for context.

- In 2019, TWC processed over 738,000 UI claims; in 2020, that number grew by 847% to 6,662,340 claims; and we processed 2,650,671 claims in 2021. The 2020 number alone is more than our combined number of claims processed from 2014-2019.
- During 2019, TWC paid out about \$2 billion in UI benefits; that number was \$37.8 billion in 2020 and over \$19.2 billion in 2021.
- Prior to COVID-19, UI received around 13,000 calls per day, and the record number of calls in a day was 60,000, which happened in September 2017 after Hurricane Harvey. In calendar year 2019, TWC UI staff answered 1.97 million calls total.
- UI staff, with the assistance of contract call centers, answered 8.21 million calls in 2020 and 9.6 million calls in 2021. In fact, during the week of April 19-25, 2020, we received over 16.5 million call attempts to the UI phone number.

In addition to the increase in calls to TWC we also experienced a large increase in traffic to the main TWC website (twc.texas.gov). Very quickly we recognized the need to ensure that our main website could accommodate this influx of traffic and by March 27, 2020, TWC had migrated the agency website (twc.texas.gov) to a scalable cloud server. Since that migration, TWC has not experienced any issues with website traffic volume on the main website.

Separately, the TWC UI benefits system operates on a mainframe system back end, with a web portal, separate from the TWC agency website, that provides customers the ability to apply for benefits and access their claims online. This mainframe system did provide some challenges in adapting the system to the increased demand during the pandemic. While TWC's UI web portal was never completely unavailable for claimant access due to demand, the UI system did experience reduced capacity from the number of individuals trying to access the system during much of the first two weeks and some days thereafter.

Prior to COVID-19, TWC's UI systems operated on 5 servers. To respond to the rapidly increasing demand, TWC worked with the Texas Department of Information Resources (DIR) to increase memory and server capacity to handle the increased claimant usage. Computer memory was added to each server by March 20, 2020. Server size was doubled to 10 servers by March 27th and doubled again to 20 servers by April 25th. Through this, TWC worked with DIR to increase mainframe capacity to 200%. TWC also partnered with a vendor to implement a "failover application" for UI claims intake. Starting on April 10, 2020, when the UI benefit system was slow, the system's website link would failover to the vendor application to allow claimants to still file an initial claim online 24/7 during these occurrences.

While the pandemic stretched the capacity of TWC staff, I must say that I am proud of how they performed under the immense pressure for such a long period of time to serve their fellow Texans while also dealing with the pandemic themselves. I would also like to report that at this time, TWC is no longer contracting with outside call centers and the agency is able to process claims for benefits with TWC staff.

Payment Processes

Next, I would like to provide you a look into our customer portals. The Unemployment Benefits Services application, or UBS, is TWC's online, self-service portal for UI customers to submit and manage their claim online. In addition to submitting unemployment claims and payment requests, customers can obtain their claim and payment status information, view electronic correspondence in their Correspondence Inbox, submit appeals, change their payment method, and update their mailing address and profile. UBS provides the tools customers need for self-service without the need to call a TWC Tele-Center. In addition to UBS for UI customers, TWC also has online portals for employers – Employer Benefit Services, or EBS, allows employers to access their Unemployment Benefits information; and Unemployment Tax Services, or UTS, allows employers with 1,000 or fewer employees to manage their unemployment tax account online.

UI Claimants have two options to request their payments: online or by phone. If requesting online, customers can login to their UBS account and request there. If requesting by phone, customers can call our toll-free, automated telephone system, known as Tele-serve, and follow the prompts. A claimant can either elect to receive their benefit payments via direct deposit to their bank account or to receive a TWC debit card through U.S. Bank. TWC's contract with U.S. Bank for debit card services ensures that customers have options for obtaining all their unemployment benefits without incurring fees.

Early in the pandemic, TWC began a process of assigning each claimant a specific day of the week, from Sunday through Thursday, to request their payments. If a customer missed their assigned day, Friday and Saturday were open for anyone to request their payments. This was to prevent overloading the system resources if all claimants due to file their payment requests in a given week did so at the same time.

Customer Services

The TWC UI program has a staff of over 1,500 who work to assist our customers – both claimants and employers. TWC has 4 permanent call centers that handle calls from UI claimants. We also have 24 tax field offices located across the state to assist employers in navigating the UI tax process.

During the pandemic, we increased all aspects of our UI program and processes. We redirected 450 existing TWC employees to help with UI claims; quickly hired 200 additional temporary UI employees; contracted with vendors for 4 additional call centers; expanded call centers hours to 12 hours per day, 7 days per week; and trained more than 1,200 external volunteers of other state agencies and the Legislature, including some of your staffers. To adhere to health and safety guidelines, we implemented teleworking for many of our agency staff who could perform their job duties while working remotely. While this started as a necessity for the pandemic, we have seen the benefits in many other ways. We have been able to provide customer service and assist customers when our operations would have been inhibited by weather or other situations. For example, having staff already teleworking allowed us to have seamless operations during Winter Storm Uri.

Our normal direct communications to claimants include a packet of information when they file a claim, their wage statement of their base period, eligibility notices, notice requests for them to contact TWC to provide additional claim information, notices whenever there is a decision or change in program, and notices of overpayment. Claimants have the option to select receiving their claim information via physical mail or e-mail. All of this information sent to a claimant is also stored in their UBS account's Correspondence Inbox, which a claimant can access at any time.

During the pandemic, we dramatically increased our messaging with claimants, employers, elected officials, media, and the general public. With swiftly changing federal policy, maintaining a steady stream of clear and informative messaging to both claimants and employers has been critical to execute UI services quickly and successfully on such a large scale. Not only did messaging provide practical instruction for customers, it also served to make the UI benefits process more efficient and effective. Since the pandemic UI response began in March 2020, TWC has sent over 75 million emails to over 3 million claimants and employers on over 75 different topics, such as status of an unemployment claim, benefits paid, upcoming program and policy changes, and other information.

During the pandemic, TWC hosted over 40 conference calls with Texas Legislators and staff at both the state and federal levels to provide updates on TWC's response to COVID-19, benefits available to constituents, and to answer questions from legislators and staff. To disseminate information to the public, claimants, and employers, TWC worked to launch several messaging campaigns and provided information through media outlets including video media briefings that covered topics and information important to claimants, which was also shared on the TWC Facebook page.

Our TWC website has provided tutorials for claimants and employers on how to navigate certain parts of their respective UI process for many years. During the pandemic, we updated those existing tutorials and developed new ones to better assist our customers. These tutorials include guidance on topics like how to apply for benefits online, how to request benefit payments, how to report work refusals, and guidance for shared work.

One of our earliest, and proudest, innovations during the pandemic was the development of our artificial intelligence-enabled virtual assistant on our website, which we launched on April 1, 2020, to assist customers with questions. This virtual assistant was named "Larry the Chat Bot" in honor of former TWC Executive Director Larry Temple. When launched, "Larry" could answer 20 questions for customers, but it can now answer more than 100 user questions in both English and Spanish. TWC also implemented a "request for call back" web form, where users can fill out a form to receive a call from a UI staff member about their need that is accessible from the chat bot if the user indicates they want to talk to a person. This has helped to divert hundreds of thousands of calls from the call centers. Within the first 6 months of launch, "Larry" had already assisted more than 2.3 million TWC customers by answering more than 9.2 million questions. The chat bot continues to assist thousands of people per day and, in

September 2020, was awarded the Application of Innovative Tools to Transform the Delivery of Public Services Project Excellence Award by the Texas Association of State Systems for Computing and Communications.

Other innovations we created during the pandemic include:

- a cloud-based interactive voice system (IVR) to help handle the influx of calls and reduce busy signals;
- a Virtual Tele-Center for intake and inquiry calls;
- a portal for claimants and employers to securely and efficiently upload documents requested by TWC; and
- an online callback request form, allowing customers to request a call at their convenience instead of waiting on hold.

Modernization Project

The current TWC unemployment computer systems for claimants and employers have been in use since the early 1980s. We have worked to improve these systems over the years, but as I mentioned earlier, they still run on their mainframe computers. Prior to the 86th Legislative Session in 2019, TWC identified a need to modernize our UI systems. We sought, and were granted, capital budget authority during that session to use federal funds to replace this system. We issued a Request for Offer in July 2019 to begin the procurement process. In March 2020, we were in the final stages of selecting a vendor, when the pandemic hit. I put the process on hold, because I needed the staff in our UI and IT departments who were working on the system replacement to respond to the pandemic and help run our current system and reprogram it for the new federal benefit programs.

In Fall 2020, we restarted the procurement process and contracted with a vendor in January 2021 to replace our legacy system. In the 87th Session we requested and were granted a continuation of this capital budget authority to ensure the federal funds could be expended on this project with the new timeline. As we restarted this process, we reflected on lessons we learned from our pandemic response and desired some specific features we had not considered in our first RFO. For example, when a claimant needs to reset their PIN on their account, our current system requires them to call us to reset it. With so many people needing to reactivate old accounts they had not used for years, our phone lines became overloaded. Our staff figured out a workaround and a patch for the current system to make it work better in that situation, but this will all be built-in and automated in the new system and not need to be a concern.

This new, cloud-based system will incorporate all 3 of our UI systems – Benefits, Tax, and Appeals – into one system. Our UI customers, both claimants and employers, will see dramatic improvements and changes when the new system comes online. The system will be accessible from a variety of devices, including mobile phones; viewable in multiple languages; able to upload documents and other information; and automatically integrated with our re-employment services to allow claimants to navigate both the claims and re-employment process through one portal. This is all in addition to current functions, such as submitting initial claims, payment requests, appeals, and reviewing claim status. Claimants will also be enabled

to access more of their claim information online and respond to agency requests more easily, reducing call center volumes and improving our customer service. Employers can submit wages and payments, view their account balance, and designate multiple users and/or third-party administrators.

TWC staff will also benefit from the new system with increased efficiency and ease of use. The system will consolidate information and communication we receive from claimants and employers (such as phone call records and documents submitted) into one place for staff to have an easy view into their record, further improving our customer service, knowledge, and efficiency. Our Tax staff will no longer need to manually reconcile wage information provided by employers, because the system will automatically do this for us.

One feature we are very excited about for both our customers and staff is that, as customers are filing a claim or reviewing claim information and have a question, they will be select on on-screen option and connect with our staff. Our staff will be able to see exactly what the claimant is seeing, in real time, and assist them in navigating their question.

The new system will also be much easier for our staff to design and implement software changes when policies change at the state or federal level. There will no longer be a need for cumbersome and time-consuming coding work.

I do want to note for the committee that while the new system is being implemented, the other major improvements and upgrades we made since the beginning of the pandemic – such as tripling our server capacity; adding additional phone lines; increasing our paperless functionality; and developing Larry-the-Chat-Bot, the Interactive Voice Response System (IVR), and Virtual Hold – have become permanent features of our current operations.

Fraud Deterrence

With the extraordinary amount of federal funding that came from the CARES Act, and other federal legislation also came increased fraud activity. Criminals filed millions of fraudulent UI claims throughout every U.S. state and territory. As Texas and other states were working hard to process and pay out claims as quickly as possible, we also had to be diligent to identify and stop fraudulent claims.

The information criminals used to file fraudulent claims was obtained from data breaches of companies and stolen identities sold on the dark web, not from any breach of TWC systems.

TWC has always worked diligently to combat fraud in UI and other programs, and that has never changed. TWC's Fraud Deterrence and Compliance Monitoring Division has continued to evolve and enhance its processes to identify and combat UI fraud to ensure public dollars and employer taxes are properly used for their intended purposes. When TWC became aware of the huge spike in potential ID theft claims caused by the federal Pandemic Unemployment Assistance (PUA) and Federal Pandemic Unemployment Compensation (FPUC) programs, TWC **added more** checkpoints and controls to detect and prevent ID theft victims from having UI

claims filed using their identities. TWC added several additional measures to detect identity theft, such as using ID.me and additional fraud detection technology, implementing an online portal for reporting fraud, and ID theft, and creating the Identity Theft Task force.

The reason there was substantially more risk of fraud with the 2 federal programs I mentioned, is because they are not traditional UI programs with all the checks and balances that exist in Regular State programs and special federal programs. Because of that, it was an attractive target for imposter-claim, ID-theft fraud. Also, with the additional FPUC payments of \$600 per week from March through July 2020 and \$300 in reauthorizations, the amount of benefits an individual could receive were vastly more than what individuals would normally receive in unemployment benefits. The relaxed eligibility standards for PUA, coupled with the record number of claims, resulted in a significant increase in the number of imposter claims. The CARES Act programs significantly changed the dynamic with respect to UI fraud, especially imposter-claims resulting from ID theft.

In fighting claims fraud, TWC has several safeguards in place to check a claim for potential fraud. Many of these practices have existed long before the pandemic and assisted us in stopping large amounts of fraud from being paid out. While we do not want to detail all of our processes in public to alert the fraudsters to our detection methods, there are some general prevention methods I want to share with you. TWC cross matches claims with National and State New Hire Directories and wage records we receive from Texas employers. We also work with the Social Security Administration to crossmatch Social Security Numbers and Right-to-Work authorization numbers on filed claims. Using the Systematic Alien Verification for Entitlement (or SAVE), we crossmatch with the Department of Homeland Security to verify immigration status and citizenship for applicants of federal, state, and local public benefits.

Additionally, within the state of Texas, we cross match with the Department of State Health Services (DSHS) to identify if a deceased claimant's claim is still active. We also crossmatch incarceration information against filed claims. Finally, I will mention that TWC is an active participant with the National Association of State Workforce Agencies' (NASWA) UI Integrity Center and the services they offer, including:

- Integrity Data Hub (IDH) tools ,
- Suspicious Actor Repository (SAR),
- Suspicious E-Mail Domains,
- Multi-State Crossmatch (MSCM),
- Foreign Internet Protocol (IP) Address Detection implemented,
- Fraud Alert application, and
- Bank Account Verification.

As I mentioned before, during the pandemic, TWC also began using ID.me as another checkpoint to prevent fraud. ID.me is an online identity verification network company that contracts with federal and state governments, healthcare companies, financial services companies, and others to ensure an individual is who they say they are. TWC and workforce agencies in many other states have utilized their services to better safeguard against fraudsters.

In January 2021, we began requiring ID.me verification for all PUA claims and all other claims identified as potential imposter claims.

Once a claim is filed, if we suspect ID theft, we attempt to contact the individual to verify their identity. If we do not receive a response from the true owner of the Social Security Number, no payment is made. Additionally, the individual's current or previous employer is notified when a claim is filed. This longstanding practice to provide an option for claim dispute is another safeguard, enabling the employer to notify any current employee of a concerning claim they received in their name.

From March 2020 through January 2022, we estimate 776,000 potential imposter claims were filed with TWC using stolen or synthetic identities. We have calculated \$51.6 million was paid out during this time on 9,573 claims that have now been confirmed to be identity theft claims. The \$51.6 million represents 0.1 percent of the total \$54.3 billion in unemployment benefits paid during this time. We also estimate TWC has prevented about \$2.6 billion in payments being paid out to fraudsters.

TWC faced challenges, but we were up to the task to respond. With our customers always at the front of our minds, we modified our processes, created new tools and resources, and fought to protect the funds we are charged to distribute. While we hope we won't have another pandemic, I am confident our team will always respond with the diligence we have during the past 2 years.

This concludes my remarks, and I am happy to answer any questions you may have.